



**North Carolina  
Department of Commerce  
Rural Economic Development Division  
CDBG-DR**

**IRS FORM 1040/Adjusted Gross Income Calculation Method  
Policy and Procedures**

**PURPOSE**

The North Carolina Department of Commerce, Rural Economic Development Division (REDD) administrative agency and grantee, and the Department of Public Safety, Division of Emergency Management (EM) the implementing agency and sub-grantee of disaster recovery funding assistance to households within communities affected by Hurricane Matthew on October 8, 2016. The U.S. Department of Housing and Urban Development (HUD), Community Development Block Grant Disaster Recovery (CDBG-DR) Program is the source of the disaster allocation.

Where household income determination is a requirement for program eligibility, the grantee will require the sub-grantee and Units of General Local Governments (UGLG), sub-recipients to use the 1040 method in accordance with the *Technical Guide for Determining Income and Allowances for the HOME Program*, Third Edition, January 2005. The IRS Form 1040 method of calculating income is referred to as the Adjusted Gross Income or AGI method.

**DEFINITION**

**IRS Form 1040 Adjusted Gross Income:** Citizens of the United States and resident aliens, except those with gross incomes that fall below a certain level, are required to file an income tax return with the Department of the Treasury's Internal Revenue Service (IRS) each year. The tax return is officially referred to as IRS Form 1040. The definition of adjusted gross income is based on this form, also commonly referred to as "the long form."

The Adjusted Gross Income (AGI) is listed on the 1040 tax form and is the dollar figure used to determine an applicant's income eligibility for participation in the North Carolina CDBG-DR Programs.



The definition of adjusted gross income is based on the Internal Revenue Service (IRS) Form 1040 “long form”. Under the HOME regulations, the 1040 EZ “short form” may not be used to determine applicant eligibility. However, CDBG Programs use the IRS definition of annual income in different ways from HOME, for example:

- CDBG does not require use of the long form.
- CDBG allows tax returns as proof of income.
- Documentation for CDBG income qualification can be up to 12 months old<sup>1</sup>.

*Note: The NC requires a 12-month re-certification of income as accepted by CDBG rather than 6 months as required by the HOME program.*

### VERIFYING INCOME

The State requires the use of the most current 1040 or 1040A or the 1040 EZ to determine household income. As of the most recent publication of the HUD income limits, the 2018 HUD Income Limits will be used to determine 2018 income eligibility. These income limits will remain in effect until HUD issues the 2019 Income Limits. If an applicant has already completed an income determination prior to the new HUD income limits being published, then the income determination will stand under the income year that the determination is made. If it has been twelve months (1 year) since the income determination was made, but there has not been an award, then the income will have to be re-verified.

If an applicant is still in the process of providing the documentation for an income determination but documentation is not complete, and no income determination has been made at the time the income limits change, then the applicant will be qualified under the new HUD limits.

Annually, income limits will be based on the most recent HUD published income limits. Additionally, the request for 1040 tax returns will be required as follows:

- The programs will request tax documentation filed for the 2017 tax year. The documentation will include the 2017 Federal 1040 or documentation showing a request for an extension to file the 2017 taxes with a certification from household members that income has not changed more than 20% since the previous year’s tax return.
- On April 16, 2018 through December 31, 2018, the programs will request 2017 Federal 1040 or documentation showing a request for an extension to file 2017 taxes, a copy of filed 2016 1040 with a certification from household members that income has not changed more than 20% since the previous year’s tax return.

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<sup>1</sup> *Technical Guide for Determining Income and Allowances for the HOME Program*, Third Edition, January 2005



The following schedule is used when requesting the most current IRS 1040 Tax Return:

| <b>TIMEFRAME OF APPLICATION SUBMISSION</b> | <b>ELIGIBLE 1040 INCOME TAX DOCUMENTATION</b>  |
|--|--|
| <b>APRIL 16, 2018-DECEMBER 31, 2018</b>    | <ul style="list-style-type: none"> <li>• 2017 tax return</li> <li>• <i>Or</i>, 2016 filed 1040 plus a filed extension for 2017 <u>and</u> signed certification</li> </ul>  |
| <b>JANUARY 1, 2019-APRIL 15, 2019</b>      | <ul style="list-style-type: none"> <li>• 2017 tax turn</li> <li>• <i>Or</i>, 2016 filed 1040 plus a filed extension for 2017 <u>and</u> signed certification</li> <li>• <i>Or</i>, 2018 if early file</li> </ul>   |
| <b>APRIL 16, 2019-DECEMBER 31, 2019</b>    | <ul style="list-style-type: none"> <li>• 2018 tax return</li> <li>• <i>Or</i>, 2017 filed 1040 plus a filed extension for 2018 and signed certification</li> </ul>   |
| <b>JANUARY 1, 2020-APRIL 15, 2020</b>      | <ul style="list-style-type: none"> <li>• 2018 tax return</li> <li>• <i>Or</i>, 2017 filed 1040 plus a filed extension for 2018 <u>and</u> signed certification</li> <li>• <i>Or</i>, 2019 if early file</li> </ul> |

The State of North Carolina requires that persons responsible for this verification validate income at the time of application; however, additional income verification adjustments may occur at any time because of life changing events such as the loss of a job or death in the family.

Upon submission of their prior year IRS 1040 Tax Return, each household will be required to certify that their current annual income is substantially similar to that reflected on the document. For the purposes of this policy, the household's income must still be within 20% of the income reported on return 1040 tax form. If the applicant's income has changed by more than 20% from their last tax filing, the program will then follow the same process to determine household income as stated below for persons lacking 1040 documentation.

### HOUSEHOLD SIZE

In determining the size of a household for the purposes of reporting income as part of this Program, the United States Department of Housing and Urban Development ("HUD") considers all persons who live in the same house to be household members. The household members may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share the same house. To determine income eligibility, income must be provided for each person in the household who is 18 years or older.

### NON-HOUSEHOLD MEMBERS

Some households may include persons who are not considered as members of the household



for the purposes of determining household size. The following persons should not be counted as household members when determining household size, and should not be included when reporting annual household income. The persons not considered as part of the household include:

- foster children
- foster aides
- live-in aides, and children of live-in aides
- unborn children (not considered in household size for income eligibility calculation but are considered for bedroom count)
- children being pursued for legal custody or adoption who are not currently living in the household

A child who lives in the house at least 50% of the time and is named in a shared-custody agreement can be counted in the household. Applicants have the option to include permanently absent family members who can be classified as household dependents, such as children attending college or a family member in a nursing home. The head of household has the choice of either counting that person as a member of the household and including their income or determining that the person is no longer a member of the household.

### HOUSEHOLD INCOME CALCULATION METHOD

In all cases where the applicant provides or can produce a 1040 tax return, the HUD 1040 income calculator method will always be used to determine income. If there is not a 1040 tax form for one or all-household members and all efforts are exhausted to obtain the tax return, then the sub-grantee or sub-recipient will alternatively use the Households Without 1040 Documentation form to calculate income. This form will only be utilized when the applicant is not required to file or in those rare occasions where the applicant is unable to file a tax return. Therefore, the HUD 1040 income calculator will be used to determine income for all applicants who filed or will file and can file 1040 tax returns.

Copies of the applicant's 1040-tax form must be provided to the program along with verification that the taxes were filed. This can include:

- 1040 transcript of tax return
- proof of refund received that matches the 1040
- proof of taxes paid that match the 1040

When the applicant says they have filed their taxes but do not have proof, the program may request the applicant to obtain a copy of their 1040 transcript. Persons who have filed and do not provide proof of filing may be determined ineligible for the program.

### CDBG-DR ELIGIBILITY PRIORITIES

Income determinations following this policy will be utilized sub-recipients to assist with prioritizing applicants along with other factors specified by the individual municipality implementing each program. The State requires that all income will be determined following this policy and if applicable income may be used in other processes when awarding assistance to households.

## INCOME CALCULATOR

The grantee and sub-recipients will use HUD's on-line calculator to complete the 1040 Method of income determination. The calculator can be found on HUD's website at:  
<https://www.hudexchange.info/incomecalculator>

The grantee and sub-recipients will follow the HUD manual for procedures in completing the 1040 income calculator. The manual is located at:  
[https://www.hudexchange.info/resources/documents/CPDIncomeEligibilityCalculator\\_User%20Manual\\_Version3.0.pdf](https://www.hudexchange.info/resources/documents/CPDIncomeEligibilityCalculator_User%20Manual_Version3.0.pdf). The manual explains the process for completing the on-line worksheet. There are certain pages from the calculator to be printed out for the applicant file. These pages are noted in the calculator.

After making every effort to work with the applicant to obtain a 1040, if it is determined that the 1040 cannot be obtained without undue hardship to the applicant, the grantee and sub-recipients will use the alternate income calculator to determine the household income. In addition, applicants who are not required to file an income tax return will complete an income tax affidavit.

The income documentation needed for applicants who did not file a 1040 or if the income situation has significantly changed (i.e., increased by more than 20%) since the 1040 was last filed, then the following documents (when applicable) will be required from all persons living in the household that is 18 or older:

- Current and consecutive check stubs for 3 months.
  1. Persons being paid weekly are paid 52 weeks a year. 3 months = 12 consecutive paychecks.
  2. Persons being paid bi-weekly are paid 26 weeks a year. 3 months = 6 consecutive paychecks.
  3. Persons getting paid bi-monthly are paid 24 weeks a year. 3 months = 6 consecutive paychecks.
  4. Persons being paid monthly are paid 12 times a year. 3 months = 3 consecutive paychecks.
- Pension Statement showing current monthly or yearly gross amount
- Social Security Statement or 1099
- Unemployment Statement



- Certification of Zero Income Form
- Complete the State Alternate Income Calculator

Approved by: \_\_\_\_\_



**North Carolina**  
**CDBG 1040/AGI CALCULATION METHOD POLICY AND PROCEDURES**  
**History/Revisions**

**History/Revisions:**

| Version # | Date    | Page(s) | Description        |
|-----------|---------|---------|--------------------|
| 1         | 4/19/18 |         | Creation of Policy |
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